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Kelly-Deyong Sound Corporation Ltd.  
First Annual Report, 1970





# KELLY-DEYONG SOUND CORPORATION LTD.

575 BEATTY STREET  
VANCOUVER 3, B.C.  
(604) 682-7321

ATTENTION: MEMBERS OF THE PRESS

## NOTICE OF ANNUAL GENERAL MEETING

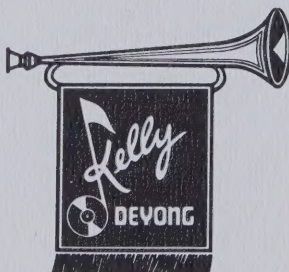
DATE: Thursday, August 26, 1970.  
TIME: 10:00 AM  
PLACE: York Room - Hotel Georgia,  
Vancouver, British Columbia.



KELLY-DEYONG SOUND CORPORATION LTD.

A. KEITH PLANT  
PRESIDENT

575 BEATTY STREET,  
VANCOUVER 3, B.C.  
(604) 682-7321



Head Office:

575 Beatty Street,  
Vancouver 3, British Columbia.  
Telephone: (604) 682-7321



# REPORT TO SHAREHOLDERS AND EMPLOYEES



C. W. Kelly



A. K. Plant

Our first year of business has been a year of great effort in organizing and consolidating your company's overall operations. Our net financial results are not satisfactory. In retrospect, we could list many reasons for the \$37,981 deficit on our consolidated balance sheet.

The main reason for the past year's performance is lower gross profits on the sale of merchandise. During our fiscal year, reduced product prices throughout the lower mainland of British Columbia clearly had an unfavourable effect on the company's profitability.

On a positive note, it was encouraging to see our sales reach \$3,790,760. The sales for the previous year were \$2,389,561. The sales increase for our current year over the previous year was 58.6%.

Your company represents the consolidation of six separate companies. Each of these companies have, in the past, maintained separate records of their operations. During the last 12 months, we have worked towards consolidating these companies into a single operation comprised of separate divisions. This consolidation was time consuming and costly. Expenses incurred during the fiscal year ending February 28, 1970 in order to construct our financial records in an efficient manner will not recur in the future. Your company is now organized to record the day-by-day business in a fast and efficient manner, thus ensuring that necessary information is more readily available to management. In the future, this timely information will be used to provide better management control over buying and pricing, thereby contributing to the company's profitability.

Further on in this report you will see a review of various phases of the operations and divisions of your company. Our newly remodelled Main Store at 540 Granville Street, Vancouver, reopened for business on July 2, 1970. Daily sales in the store since the re-opening have shown a marked increase and management are very enthusiastic about its future. This store has been designed to enable us to maintain not only our reputation of providing one of the finest and most complete selections of records and tapes in Canada, but also the unparalleled service for which we are known.

In summary, we feel that the major accomplishment of the first year of operation of your company has been one of establishing an excellent base for our future operations. We believe the knowledge and background available to the company through its employees will allow us to participate profitably in our growing industry in the years to come.

While we would like to have been in a position to report a profit during our first year of operation, we believe the additional overhead and administrative costs were unavoidable and will prove to be a solid investment in helping your company grow profitably in the future.

On behalf of the Board of Directors:

A handwritten signature in dark ink, appearing to read "C. W. Kelly".  
Chairman of the BoardA handwritten signature in dark ink, appearing to read "A. K. Plant".  
President



# RETAIL OPERATIONS



*Kelly-Deyong Main Store*

Our Main Store at 540 Granville Street, Vancouver, as depicted on the cover was reopened for business July 2, 1970. The design of this store provides us the opportunity to offer the ultimate in service and selection. One of the finest selections of records, tapes and accessories in Canada is available at this location. The picture on the left gives you an idea of our merchandise on the ground floor. Not shown here is the Classical Department which is located on the mezzanine floor. No other store in Canada provides the classical selection available in this department.

The first true concept of a "sound centre" in Canada, the Kelly-Deyong Sound Centre has been in operation since July, 1967. At this location, we carry the finest in stereo components and provide a complete consultation service to stereo enthusiasts. The Sound Centre is like a stereo salon where the relaxing environment is conducive to personalized selection of home music systems. To round out our merchandise at this location, we added a record and tape department in the Spring of this year. The Sound Centre is located at 2714 West Broadway, Vancouver.



*Kelly-Deyong Sound Centre*



*Stereo-Mart, 613 Granville*

Your company maintains one location which does not use the name of Kelly-Deyong. This location is called the Stereo-Mart at 613 Granville Street in Vancouver. The entire atmosphere in the Stereo-Mart has been designed to capture the imaginations of the young record and stereo component shopper. 75% of our business here comes from the 15-21 year old consumer. The main floor contains the record and tape merchandise, while the mezzanine is used for stereo components. Your management would highly recommend a visit to this location. We know it would be an interesting experience.





*Park Royal store, West Vancouver*



*Oakridge store, Vancouver*

Many of your Kelly-Deyong stores are located in major shopping centres. Two of these are depicted above, at Park Royal, West Vancouver and Oakridge, Vancouver. Your company is currently operating retail locations in other shopping centres such as Parkwood Mall in Prince George; Midtown Centre in Regina; the Meadowlark, Northgate and Bonnie Doon shopping centres in Edmonton. We are in the final stages of opening a new location in Edmonton at the Southgate shopping centre.

## RETAIL LOCATIONS

### BRITISH COLUMBIA

#### Vancouver:

540 Granville Street  
613 Granville Street  
2714 West Broadway  
2617 West 4th Avenue  
Oakridge Shopping Centre

#### West Vancouver:

Park Royal Shopping Centre

#### New Westminister:

611 Columbia Street

#### Victoria:

648 Yates Street

#### Nanaimo:

22 Victoria Crescent

#### Prince George:

Parkwood Mall

### ALBERTA

#### Edmonton:

Bonnie Doon Shopping Centre  
Meadowlark Shopping Centre  
Northgate Shopping Centre  
Southgate Shopping Centre

### SASKATCHEWAN

#### Regina:

Midtown Shopping Centre

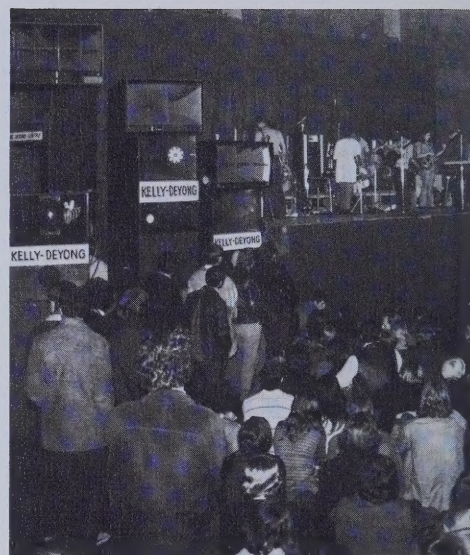


# MUSICIANS' SUPPLIES

Our Kelly-Deyong Sound House on 4th Avenue, Vancouver, provides a unique service to local, national and international musicians and bands.

We currently maintain a mobile custom built public-address system used by many well known groups during their shows at the Coliseum, Agrodome, Empire Stadium and indoor and outdoor rock festivals. This public-address system is valued at over \$20,000, and is becoming well known to musicians throughout North America. Many groups performing in British Columbia and Alberta request that our public-address system be made available for their show. In some cases, groups have refused to perform unless they could claim in their pre-show promotion — "Sound by Kelly-Deyong."

This system, as it was set up for a recent rock show, is shown above.



*Kelly-Deyong Sound House  
on location at Coliseum*



*Kelly-Deyong Music Centre*

Our Kelly-Deyong Music Centre, formerly known as Claude Crocker's Music Centre, provides another dimension to the company's merchandise lines. Every kind of musical instrument as well as a complete selection of sheet music, is available at this store, located at 611 Columbia Street in New Westminster. The reputation of this store for supplying musical instrument consultation and education is known throughout the entire lower mainland and Fraser Valley. The Music Centre piano department is pictured on the left. A complete selection of records and tapes is also maintained at this location.





# WHOLESALE DIVISION - Pro-Sound Distributors Limited



*Record Division*



*Stereo Component Division*

Our Pro-Sound wholesale record and tape division is located on the first floor of our head office at 575 Beatty Street, Vancouver. This record and tape warehouse services all of our British Columbia retail stores as well as our record and tape franchise divisions. A second warehouse is located in Edmonton to service our business in Saskatchewan and Alberta. The record and tape merchandise maintained at these warehouses includes our regular merchandise together with 1,000 45 rpm "flashbacks," plus 45 rpm pressings not available in Canada. These imports are exclusive to Kelly-Deyong. Our comprehensive Flashback Catalogue available at all our retail and franchised locations is unique to the industry. Radio stations often use this catalogue to assist their personnel in programming.

The third floor at our head office location is used as the warehouse for our stereo component division. In order to provide a complete selection at all of our locations, we maintain inventory representing every major brand of stereo components. The profile of our inventory at each location is constantly changed to meet consumer demands.

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## FRANCHISED LOCATIONS

ARV Services,  
Courtenay, B.C.  
Brentwood TV,  
Port Coquitlam, B.C.

Haden's Studio,  
Rossland, B.C.

Hillyard's TV,  
Duncan, B.C.

Hollway Radio,  
Port Alberni, B.C.

Hollway Radio,  
Ucluelet, B.C.

Johnny's TV,  
Squamish, B.C.

Kelly-Deyong Sound,  
Nelson, B.C.

Kitimat Photo Supplies Ltd.,  
Kitimat, B.C.

Kootenai Photo Supplies Ltd.,  
Cranbrook, B.C.

Langley Music,  
Langley, B.C.  
Mather Music & Electric,  
Osoyoos, B.C.

Murdochs Variety,  
Hope, B.C.

Nilsson Family Dept. Store,  
Agassiz, B.C.

Oliver Variety,  
Oliver, B.C.

Parksville Variety,  
Parksville, B.C.

Place Music,  
Williams Lake, B.C.

Princeton 5c to \$1.00,  
Princeton, B.C.

Port Hardy Hardware,  
Port Hardy, B.C.

Rudge Electronics,  
Quesnel, B.C.

Summerland 5c - \$1.00,  
Summerland, B.C.

The TV Centre,  
Revelstoke, B.C.

Terrace Photo,  
Terrace, B.C.

The Family Music Centre,  
Campbell River, B.C.

The Outpost,  
Alert Bay, B.C.

Tip Top Radio,  
100 Mile House, B.C.

The Music Box,  
Kelowna, B.C.

White Rock 5c to \$1.00,  
White Rock, B.C.



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CONSOLIDATED BALANCE S

ASSETS

CURRENT ASSETS:

Cash .....	\$ 116,649
Accounts receivable - trade (less allowance for possible losses - \$78,613) .....	336,402
Income taxes recoverable .....	53,069
Inventory - at lower of cost or net realizable value .....	1,066,805
Prepaid expenses .....	<u>28,264</u>
Total current assets .....	1,601,189

NON-CURRENT ASSETS:

Instalment accounts receivable, less amounts due within one year included in current assets above .....	\$ 43,973
Long-term refundable deposits .....	<u>4,137</u>
Total non-current assets .....	48,110

FIXED ASSETS - at cost (Note 2) .....	491,871
Less accumulated depreciation and amortization....	<u>114,811</u>
Net fixed assets .....	377,060

OTHER ASSETS - at cost:

Incorporation and financing costs .....	49,289
Excess of cost of shares of subsidiaries over underlying net assets at dates of acquisition...	<u>178,153</u>
Total other assets .....	227,442

APPROVED BY THE BOARD:

..... *Ch. Kelly* ..... Director  
..... *R. C. Earle* ..... Director

TOTAL ..... \$2,253,801

The accompanying notes are an int

To the Shareholders of  
Kelly-Deyong Sound Corporation Ltd.:

We have examined the consolidated balance sheet of Kelly-Deyong Sound Corporation Ltd. and its subsidiary companies as at February 28, 1970 and the consolidated statements of income and deficit and of source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.



panies Act, British Columbia)

AS AT FEBRUARY 28, 1970

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Bank indebtedness (Note 3) .....	\$ 295,100
Accounts payable and accrued charges .....	624,091
Income taxes payable .....	39,172
Current portion of mortgage payable .....	1,734
Due to shareholder (Note 4) .....	<u>6,346</u>

Total current liabilities ..... 966,443

DEFERRED REVENUE ..... 40,645

LONG-TERM DEBT:

Mortgage - 9 3/4% (Note 5) .....	\$ 46,699
Conditional sale agreement payable .....	<u>3,816</u>

Total long-term debt ..... 50,515

DEFERRED INCOME TAXES ..... 16,400

SHAREHOLDERS' EQUITY:

Share capital:

Authorized: 1,000,000 shares of no par value

Issued and fully paid: 520,000 shares

(Note 6) ..... 1,217,779

Deficit ..... 37,981

Net shareholders' equity ..... 1,179,798

TOTAL ..... \$2,253,801

1 part of the financial statements

In our opinion these consolidated financial statements present fairly the financial position of the companies as at February 28, 1970, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis.

*Walter J. Bender* *Warkins & Hills*  
Auditors

June 30, 1970



KELLY-DEYONG SOUND CORPORATION LTD.  
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

FOR THE YEAR ENDED FEBRUARY 28, 1970

SALES .....		\$3,790,760 ✓
COST OF SALES .....		<u>2,662,220</u>
GROSS MARGIN .....		1,128,540
EXPENSES:		
Operating, selling and administrative expenses except those listed hereunder .....	\$1,157,876	
Depreciation and amortization .....	31,753	
Interest on long-term debt .....	4,196	
Other interest .....	<u>41,709</u>	
Total expenses .....		<u>1,235,534</u>
		106,994
OTHER INCOME:		
Miscellaneous .....	24,899	
Gain on sale of assets - net (Note 7) .....	<u>4,467</u>	<u>29,366</u>
LOSS BEFORE INCOME TAXES .....		77,628
INCOME TAXES:		
Income tax recoverable attributable to application of carry-back losses .....	52,047	
Deferred income taxes .....	<u>12,400</u>	<u>39,647</u>
NET LOSS FOR THE YEAR .....		37,981 ✓
RETAINED EARNINGS - FEBRUARY 28, 1969 .....		<u>-</u>
DEFICIT - FEBRUARY 28, 1970 .....		<u>\$ 37,981</u>

The accompanying notes are an integral part of the financial statements



KELLY-DEYONG SOUND CORPORATION LTD.  
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED FEBRUARY 28, 1970

SOURCE OF FUNDS:

Issue of share capital for cash .....	\$ 884,000
Net current assets of acquired subsidiaries at dates of acquisition .....	339,989
Proceeds on sale of fixed assets .....	293,933
Increase in deferred revenue .....	29,645
Increase in long-term debt - net of repayments .....	<u>2,081</u>
Total source of funds .....	<u>1,549,648</u>

APPLICATION OF FUNDS:

Operations:

Net loss for the year .....	\$37,981	
Add: Gain on sale of fixed assets - net, exclusive of loss on sale of other assets .....	<u>12,596</u> <u>50,577</u>	
Deduct: Items charged to net loss which did not represent a current outflow of funds:		
Depreciation .....	31,753	
Deferred income taxes .....	<u>12,400</u> <u>44,153</u>	6,424
Purchase of all of the outstanding shares of certain subsidiary companies for cash .....		305,432
Purchase of fixed assets .....		507,303
Increase in long-term accounts receivable .....		43,973
Financing costs .....		46,655
Incorporation costs .....		980
Long-term refundable deposits .....		<u>4,137</u>
Total application of funds .....		<u>914,904</u>
INCREASE IN WORKING CAPITAL FOR THE YEAR .....		634,744
WORKING CAPITAL - FEBRUARY 28, 1969 .....		<u>2</u>
WORKING CAPITAL - FEBRUARY 28, 1970 .....		<u>\$ 634,746</u>

The accompanying notes are an integral part of the financial statements



KELLY-DEYONG SOUND CORPORATION LTD.  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1970

1. PRINCIPLES OF CONSOLIDATION:

Kelly-Deyong Sound Corporation Ltd. was incorporated February 27, 1969. The balance sheet of the company as at February 28, 1969 was as follows:

ASSETS

Due from shareholders	\$ <u>2.00</u>
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SHARE CAPITAL

Authorized - 1,000,000 shares of no par value	
Issued - 2 shares	\$ <u>2.00</u>

During the year ended February 28, 1970 the company acquired all of the outstanding shares of the following companies on the dates indicated below:

Kellys on Seymour Ltd.	March 1, 1969
Pro-Sound Distributors Limited	March 1, 1969
(formerly B.C. Record Service Ltd.)	
International Discount Records Ltd.	March 1, 1969
Deyong Sound Ltd.	March 1, 1969
Claude Crocker's Music Centre Limited	May 1, 1969
Trio Merchandisers Ltd.	August 29, 1969

The consolidated financial statements include the accounts of Kelly-Deyong Sound Corporation Ltd. and all subsidiary companies. All intercompany items and transactions between consolidated companies, including profits in inventories, have been eliminated.

2. FIXED ASSETS:

The major categories of fixed assets and related depreciation and amortization at February 28, 1970 are as follows:



KELLY-DEYONG SOUND CORPORATION LTD.  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1970

	<u>Fixed Assets</u>	<u>Accumulated Depreciation and Amortization</u>	<u>Rates</u>
Buildings	\$111,699	\$ 4,452	5%
Furniture and fixtures	165,791	54,888	10-20%
Automotive and other equipment	52,525	10,405	20%
Leasehold improvements	<u>138,856</u>	<u>45,066</u>	Term of Lease
	468,871	114,811	
Land	<u>23,000</u>	<u>-</u>	
	<u>\$491,871</u>	<u>\$114,811</u>	

It is the company's practice to provide for depreciation on a straight-line basis at the rates shown above, and to provide for amortization of leasehold improvements on a straight-line basis over the terms of the respective leases.

3. BANK INDEBTEDNESS:

The bank indebtedness is secured by an assignment of trade accounts receivable, by the loss proceeds of certain fire insurance policies, and by a floating charge debenture totalling \$500,000 on the assets of certain companies.

Under the terms of the debenture agreement the company is required to obtain the consent of the bank in order to declare or pay dividends in excess of \$15,000 on the share capital of the company.

4. DUE TO SHAREHOLDER:

The balance of \$6,346 due to a shareholder was discharged subsequent to February 28, 1970.

5. MORTGAGE:

The mortgage, dated February 4, 1969, is payable in monthly instalments of \$524, to include interest and principal, with the balance due March 1, 1974. The mortgage is secured by the land and building. The principal portion of the instalments due within one year has been included in current liabilities.



KELLY-DEYONG SOUND CORPORATION LTD.  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1970

6. SHARE CAPITAL:

During the year the company issued 519,998 shares for a total consideration of \$1,217,777. These shares were issued as follows:

200,000	shares for a cash consideration	\$ 884,000
319,998	shares for all of the outstanding shares of Kellys On Seymour Ltd., Pro-Sound Distributors Limited (formerly B.C. Record Service Ltd.), International Discount Records Ltd. and Deyong Sound Ltd. for a consideration of	<u>333,777</u>
<u>519,998</u>		<u>\$1,217,777</u>

7. LEASES:

The company has entered into lease contracts on certain properties for varying periods of up to fifteen years including certain renewal options.

The rental expense incurred during the year under these leases aggregated \$95,711. The annual minimum rentals for future years approximate \$143,300.

During the year ended February 28, 1970 the company purchased a building at a cost of \$275,000, which was in turn sold and leased back during the year. The gain on disposal resulting from this purchase and sale amounted to \$13,351 and has been included in Other Income in the Consolidated Statement of Income and Deficit.

8. SHARE OPTIONS:

The company has reserved 19,200 shares of the share capital of the company for a plan whereby options will be granted to certain full time officers and employees of the company.

The directors have authorized a share option of 10,000 of these shares so reserved at \$3.50 per share to a senior officer of the company. This option expires December 31, 1973.

As at February 28, 1970 the above option had not been exercised.

9. CONTINGENT LIABILITY:

As at February 28, 1970, a subsidiary company was contingently liable to the extent of approximately \$51,500 for recourse, under certain circumstances, on the sale of conditional sales contracts and lease purchase agreements.



# DIRECTORS AND OFFICERS

Directors:	C. W. Kelly	Chairman of the Board, Kelly-Deyong Sound Corporation Ltd., Vancouver.
	H. N. Yates	Executive Vice-President, Embassy Developments, Edmonton.
	R. C. Carle	Chartered Accountant and partner in the firm of Collins and Collins, Vancouver.
	D. T. Warren	Barrister and Solicitor, partner in the firm of Owen, Bird & McDonald, Vancouver.
	D. F. Clark	President, Clark Consultants, Vancouver.

Officers:	A. K. Plant	President, Kelly-Deyong Sound Corporation Ltd., Vancouver.
	C. W. Kelly	Secretary, Kelly-Deyong Sound Corporation Ltd., Vancouver.
	M. G. Braithwaite	Comptroller, Kelly-Deyong Sound Corporation Ltd., Vancouver.

Transfer Agent  
and Registrar: Yorkshire Trust Company, Vancouver.

Solicitors: Bourne, Lyall, Shier, Davenport and Spencer, Vancouver.

Auditors: Deloitte, Plender, Haskins & Sells, Vancouver.



